RESEARCH PLAN PROPOSAL

Corporate Governance in Public and Private Sector Banks: A Comparative Study of SBI and ICICI Bank

For the registration to the degree of
DOCTOR OF PHILOSOPHY
IN
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INTRODUCTION TO CORPORATE GOVERNANCE

Corporate Governance involves a set of relationship between company's management, its board, its shareholders and other stakeholders. Corporate Governance provides a upright process and structure through which the objective of the company, the means of attaining the objective and systems of monitoring performance is also set.

Corporate Governance is a system by which corporate entities are directed and controlled. Corporate Governance is management of companies by the Board of Directors. The concept of Corporate Governance primarily hinges on complete transparency, integrity and accountability of the management. This is essentially the core of good Corporate Governance.

Corporate Governance in its most simplified iteration refers to the manner in which corporate bodies are managed and operated. Until the latter part of 1900's the expression good Corporate Governance was invariably used to describe how well a business was directed and managed from the perspective of its controllers or managers. This was no doubt a truism in the context of privately owned companies in which the operators and shareholders were usually one and the same persons and there was no conflict between the persons managing or controlling the company and the ultimate beneficiaries. However the same could not be said in respect of publicly owned enterprises in which the managers and controllers are not the sole beneficiaries of the enterprise. In such circumstances situations do arise wherein the objectives of the controllers or managers of the enterprise and the shareholders as a whole regarding the manner in which a company is directed and managed does not necessarily coincide.

This impasse invariably gives rise to tensions between the controllers/managers and shareholders, which can sometimes have disastrous consequences not only for the company itself but also the commercial and economic environment the company, operate in. These tensions are sometimes aggravated through the lack of transparency and communication between parties.

In this background good Corporate Governance in modern terminology has been often described as the mechanism of addressing and easing the tensions which arise between the controllers or managers and other stakeholders of a company. The expression stakeholders being an indication of the development that has been witnessed in corporate cultures wherein a corporate citizen is deemed to owe obligations not only to its owners but to its employees, creditors and in some instances generally to society at large.

CONCEPT OF CORPORATE GOVERNANCE

Corporate Governance in the context of a modern corporation has become synonymous with the practices and processes used to direct and manage the affairs of a corporate body with the object of balancing the attainment of corporate objectives with the alignment of corporate behaviour to the expectations of society and accountability to shareholders and other stakeholders.

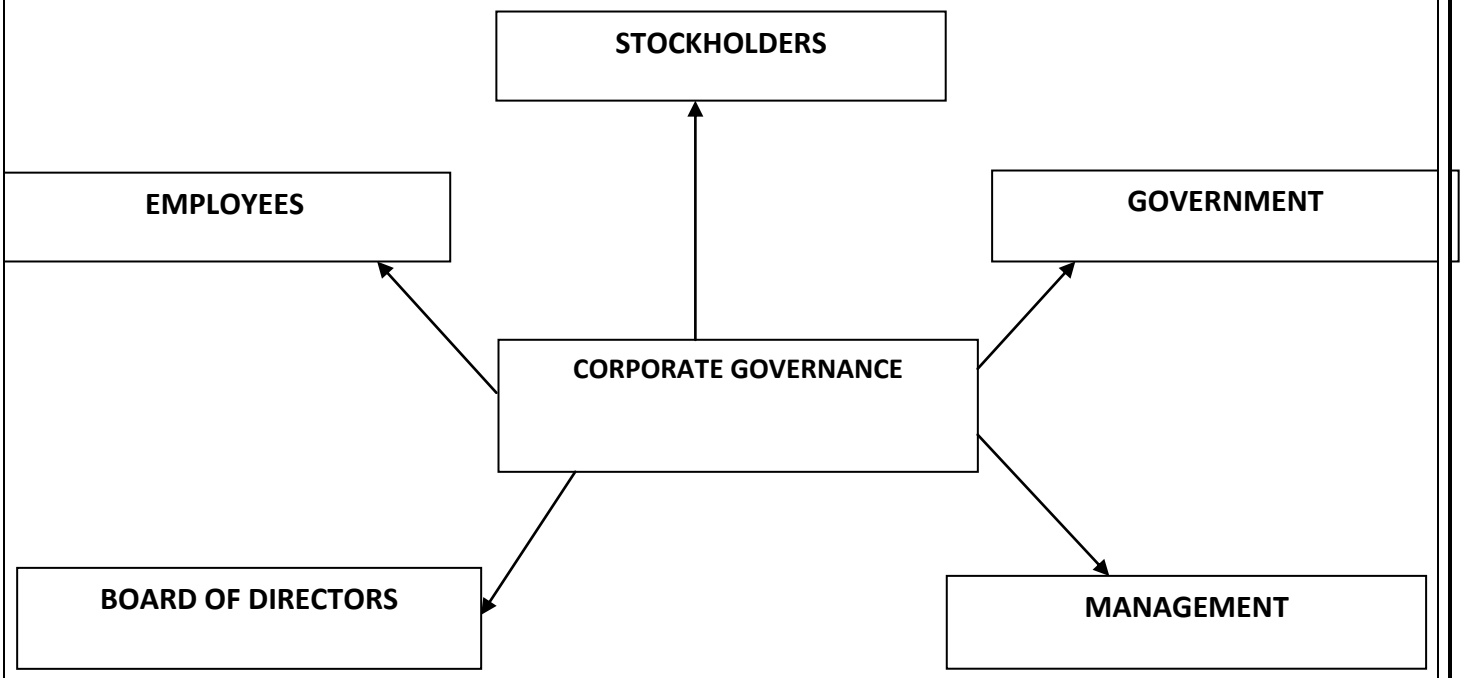
Corporate Governance encapsulates:-

- The management of the relationships between a corporate body's management, its board, its shareholders and other stakeholders.
- The provision of the structure through which the objectives of the company are identified and the monitoring of the means used to attain these objectives including the monitoring of performance in this regard.
- Bringing more transparency to bear on the decision-making processes of the company.
- The provision of proper incentives for the board and management to pursue objectives those are in the interests of the corporate body and shareholders.
- Encouraging the use of resources in a more efficient manner.
- The management of risk and the minimization of the effects of commercial misadventure.

Corporate Governance is only part of the larger economic context in which companies operate. It is recognised though as a key element in improving economic efficiency and is considered a powerful micro-policy instrument and effective lever for charge in transitional economies. It is however, no substitute for entrepreneurial ability. It only offers a framework of accountability and checks and balances. Further good Corporate Governance cannot prevent ill-conceived strategies, product failures or missed opportunities. It can however contain the harm arising from such corporate shortcomings and enable the tackling of issues such as defective leadership, persistent poor business performance and a general erosion of trust or confidence in or around business. In the circumstances it could be said to contribute to the preservation, sustenance and nurturing of the fruits of entrepreneurial activity.

Corporate Governance is affected by a multiplicity of factors. It is affected by the relationships among participants in the governance system. The legal, regulatory and institutional environment in which, a corporate body operates affects the manner in which it governs. In addition, factors such as business ethics and corporate awareness of the environmental and societal interests of the communities in which it operates can also have an impact on the governance of the corporate body.

MAJOR GROUPS INVOLVED IN CORPORATE GOVERNANCE



THE BASEL COMMITTEE RECOMMENDATIONS

The Basel committee published a paper for banking organisations in September 1999. The Committee suggested that it is the responsibility of the banking supervisors to ensure that there is an effective Corporate Governance in the banking industry. It also highlighted the need for having appropriate accountability and checks and balances within each bank to ensure sound Corporate Governance, which in turn would lead to effective and more meaningful supervision.
Efforts were taken for several years to remedy the deficiencies of Basel I norm and Basel committee came out with modified approach in June 2004. The final version of the Accord titled"International Convergence of Capital Measurement And Capital Standards-A-Revised Framework" was released by BIS. This is popularly known as New Basel Accord of simply Basel II. Basel II seeks to rectify most of the defects of

Basel I Accord. The objectives of Basel II are the following:

1. To promote adequate capitalisation of banks.
2. To ensure better risk management and
3. To strengthen the stability of banking system.

Essentials of Accord of Basel II

- Capital Adequacy: Basel II intends to replace the existing approach by a system that would use external credit assessments for determining risk weights. It is intend that such an approach will also apply either directly or indirectly and in varying degrees to the risk weighting of exposure of banks to corporate and securities firms. The result will be reduced risk weights for high quality corporate credits and introduction of more than 100% risk weight for low quality exposure.
- Risk Based Supervision: This ensures that a bank's capital position is consistent with overall risk profile and strategy thus encouraging early supervisory intervention. The new framework lays accent on bank managements developing internal assessment processes and setting targets for capital that are commensurate with bank' particular risk profile and control environment. This internal assessment then would be subjected to supervisory review and intervention by RBI.
- Market Disclosures: The strategy of market disclosure will encourage high disclosure standards and enhance the role of market participants in encouraging banks to hold and maintain adequate capital.

CORPORATE GOVERNANCE PRACTICES IN ICICI BANK

Corporate Governance policies of ICICI Bank recognise the accountability of the board and the importance of its decisions to all their constituents, including customers, investors, employees and the regulatory authorities. The functions of the board and the executive management are well defined and are distinct from one another. They have taken a series of steps including the setting up of sub committees of the board to oversee the functions of executive management.

The board's role, functions, responsibility and accountability are clearly defined. In addition to its primary role of monitoring corporate performance, the functions of the board include

- Approving corporate philosophy and mission
- Participating in the formulation of strategic and business plan
- Reviewing and approving financial plans and budgets.
- Monitoring corporate performance against strategic and business plans including overseeing operations
- Ensuring ethical behaviour and compliance with laws and regulations.
- Formulating exposure limits
- Keeping shareholders informed regarding plans, strategies and performance.

CORPORATE GOVERNANCE OF STATE BANK OF INDIA

To enhance management transparency and Corporate Governance, SBI holdings recognises that one of its most crucial management task is to build and maintain an organisational structure capable of responding quickly to the changes in the business environment as well as a fair management system that emphasis interest of the shareholders.

State Bank of India is committed to the best practises in the area of Corporate Governance. The bank believes that good Corporate Governance is much more than complying with legal and regulatory requirements. Good governance facilitates effective management and control of business, enables the bank to maintain high level of business ethics and to optimise the value for all its stake holders.

The objectives can be summarized as

- To enhance shareholder value
- To protect the interest of shareholders and other stakeholders including customers, employees and society at large.
- To ensure transparency and integrity in communication and to make available full, accurate and clear information to all concerned.
- To ensure accountability for performance and to achieve excellence at all levels.
- To provide corporate leadership of highest standard for others to emulate.

Review of Literature

The literature on Corporate Governance in its wide subtext covers a variety of aspects, such as protection of shareholder's rights, improving shareholders' value, board matters etc.
However, the importance of Corporate Governance in banking sector weighs very much due to very nature of banking transactions. Banking is the crucial factor effecting economic development of an economy. It is the life-blood of a country. It is responsible for the flow of credit and for maintaining the financial balances of the economy. In India, since the nationalization process banks emerged as a tool of economic development along with social justice. Corporate Governance has become very important for banks to perform and remain in competition in this era of liberalization and globalization.

The Canada initiative (Toronto Stock Exchange, 1994) goes much further in defining Corporate Governance as "the process and structure used to direct and manage the business and affairs of the corporation with objective of enhancing shareholder value, which includes ensuring the financial viability of the business"

Puneet k. Abrol and Rakesh Kumar Gupta in their paper " Corporate Governance a tool to bring back the confidence of the shareholders " analysed the need of Corporate Governance through separate laws so as to build up the confidence of domestic as well as international community.

Garvey and Swan (1994) asserted that "governance determines how the firm's top decision makers (executives) actually administer such contracts."

John and Senbet (1998) proposed the more comprehensive definition that "Corporate Governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected."

Sir Adrian Cadbury, in Reflections on Corporate Governance, Ernest Sykes Memorial Lecture, (1993) opined "…to do with Power and Accountability: who exercises power, on behalf of whom, how the exercise of power is controlled."

Mr. Jaime Caruana, Chairman of Basel Committee and Governor of the Bank of Spain, noted: "Sound Corporate Governance is an important element of bank safety and soundness and the stability of the financial system. The Basel Committee believes that this paper will help to foster more effective risk management and greater transparency on the part of the banking organizations."

Gabrielle O' Donovan defines Corporate Governance as an internal system encompassing policies, processes and people, which serve the needs of the

shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity and integrity.

Report of SEBI Committee (2003) on Corporate Governance defines Corporate Governance as the acceptance by management of the inalienable rights of the shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company.

The Cadbury Committee Report (1991) defines Corporate Governance as a system by which corporate are directed and controlled.

According to the Guidelines for Enhancing Good Economic and Corporate Governance in Africa from the Economic Commission for Africa (2002), Corporate Governance refers to the mechanisms by which private, publicly traded and state-owned enterprises are managed and governed, and good Corporate Governance "entails the pursuit of objectives by the board and management that represent the interests of a company and its shareholders including effective monitoring and efficient use of resources"

C.S. Cheema and Monika Aggarwal in their paper titled "Corporate Governance in Banks ", attempt to analyse the status of Corporate Governance in Indian banking sector.

Suveera Gill in her paper titled , " Corporate Governance and Shareholder activism ", traces the origin of shareholder activism by referring to formation of the Securities and Exchange Commission in USA.

Report of Confederation of Indian Industry (CII) (1993) defines "Corporate Governance as dealing with laws, procedures, practices and implicit rules that determine a company's ability to take informed managerial decisions."

Preamble to the OECD Principles of Corporate Governance, (2004) defines "Corporate Governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders ...also the structure through which objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."

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James D. Wolfensohn, President of the World Bank c. (1999) viewed “The proper governance of companies will become as crucial to the world economy as the proper governing of countries.”

Professor Bob Tricker c. (1984) opined “Whilst management processes have been widely explored, relatively little attention has been paid to the processes by which companies are governed. If management is about running businesses, governance is about seeing that it is run properly. All companies need governing as well as managing.”

Monks and Minow (1985) explained Corporate Governance “It is the relationship among various participants in determining the direction and performance of corporations”.

Dr. R. Srinivasan in his paper titled “Role of Audit Committee on Corporate Governance” discussed about objectives and importance of Corporate Governance. He insisted that corporate sector needs resource persons to act as independent director on whose shoulder lies the responsibility to take the company in the right path. Also focused on different responsibilities of Auditors.

Wolfensohn, President of the Word Bank, quoted by an article in Financial Times in June of 1999 that "Corporate Governance is about promoting corporate fairness, transparency and accountability."

Dr Madhav Mehra President, World Council for Corporate Governance
The corporations of today are no longer sheer economic entities. These are the engines of economic and social transformation.

J J Irani, Narayana Murthy and Naushir Mirza adopted a broader definition of Corporate Governance to include the interests of all the stakeholders like employees, customers and the society at large.

Justification and Relevance of the Study

The organisation must prioritize the interest of other shareholders such as employees, suppliers etc as these are the ones who in turn would provide the strengthening effect to the firm from within. But in reality banks fail to prove themselves on this part. This creates a need to study the prevailing way of Corporate Governance in banks and assess how far the improvements made in past have made it credible in eyes of the shareholders. The present study is concerned with evaluating the performance of two banks: SBI & ICICI in terms of their code of conduct of Corporate Governance.

Statement of the Problem

The present study aims at understanding prevailing levels of Corporate Governance in public and private sector banks. Two banks i.e. SBI representing the public sector & ICICI Bank representing the private sector will be taken in the study to assess the changes brought down in their governing pattern.

Scope of the Study

The primary focus of the study is on the way of handling Corporate Governance issues in different sector banks. Banks taken into consideration will be SBI from Public sector and ICICI from Private sector. All the aspects related to Corporate Governance, like Role of Board of Directors, Auditors and also the recommendations from committees like Basel, Birla, etc. may be touched upon as per relevance to main focus area.

Objectives of the Study

- To analyze the positive implications of Corporate Governance in banks
- To study the current status of Corporate Governance in SBI and ICICI bank.
- To assess the responsibilities of the Board of Directors in banks with respect to Corporate Governance.
- To assess the level of disclosure and transparency in banks.
- To check whether all the sub-committees formed by the bank are playing their respective roles promptly or not. .
- To check whether introduction of Corporate Governance has curbed malpractices and frauds in bank

- To study the relationship between compliance of Corporate Governance by banks and protection of stakeholders
- To study the impact of implementation of Corporate Governance in improving the public trust and acceptability of a bank as a result give boost to share price.
- To study the role of audit committee in compliance of Corporate Governance in banks.
- To find out possible areas for improvement.

Hypothesis

H0: There is no significant difference between corporate governance effectiveness in public and private sector bank
H1: There is significant difference between corporate governance effectiveness in both the banks.

Sub Hypothesis

- **Level of disclosure and transparency is higher in public sector banks than in private sector banks.**
- **Customer's trust on public bank (SBI) is more than on private bank (ICICI)**
- **Sub Committees constituted in public sector banks are more effective than in private sector banks.**
- **There is a presence of strong and independent Board of Directors in a public sector bank than in private sector bank.**

The above hypothesis will be tested from different stakeholder's perspective (namely Managers, Employees, and Customers)

For this purpose different questionnaires for different stakeholders are framed.

METHODOLOGY

This research aims at studying and assessing the level of Corporate Governance in the banks and suggesting the ways of improvements in their code of conduct, if needed. As it includes comparison of two banks, it is a comparative study which is also evaluative in nature. The research will be exploratory as well as descriptive in nature as it will use both primary and secondary data.

Data, Sources and Methods of data collection:

For the purpose of analysis of their current position in governance, secondary data will be required. The sources of such data are: websites, bulletins, magazines and other published records of banks like annual reports, newsletters of SBI and ICICI banks. For customer preferences and employees views, primary data will be collected through questionnaires, personal interviews, mail surveys etc. The data will be qualitative as well as quantitative in nature.

Sample Design

The universe of the study is the Banking Industry of India including both public and private sector. Sampling frame for the study will be Jaipur district.
As the study is concerned with comparing the governing pattern in different sector banks, therefore SBI and ICICI representing public and private sectors respectively will be taken. Sampling technique used will be stratified sampling, as the major stakeholders from both the banks are required to be studied to analyse level of Corporate Governance in both the banks therefore stratification variable will be stakeholders.

Sample size will be 300.

Tabular Representation of Sample Design

Stakeholders	**Sample Size**
Customers of ICICI	100
Customers of SBI	100
Employees of ICICI	40
Employees of SBI	40
Members representing Management of ICICI	10
Members representing Management of SBI	10
Total	300

Data analysis and Data Interpretation

Data will be analysed after tabulating and coding the primary data collected through Questionnaires and Interviews. Graphical representation of the analysed data will also be done.
Main and sub hypothesis framed will be tested using various tools like Chi-Square test, Correlation. Data analysed will be interpreted in this research in the form of findings, conclusions and required recommendations will be made.

Limitations of the study

The study to be conducted will have certain limitations which have to be taken into consideration along with the contributions of the study.

The population taken for the study is Indian Banking industry i.e. vastly scattered sector therefore it's a challenging task to get exact results. Although the banks taken for study are true representative of their respective sectors still as far as generalizations of the results is concerned it also brings limitations. But by understanding about this particular case, conclusions might be drawn about the sectors in general.
Another limitation could be that while collecting information from the respondents, it might prove to be a difficult task as concept of Corporate Governance is still unheard for many.

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Chapterization

Table of Contents

CHAPTER I Introduction

- 1.1 Introduction to Corporate Governance
- 1.2 Concept of Corporate Governance
- 1.3 Major groups involved in Corporate Governance
- 1.4 Challenges faced by Corporate Governance

CHAPTER II Corporate Governance Practices in India

- 2.1 Introduction
- 2.2 Need for Corporate Governance
- 2.3 Prerequisites for Good Corporate Governance
- 2.4 Birla Committee Recommendations
- 2.5 Basel Committee

CHAPTER III Research Methodology

- 3.1 Introduction
- 3.2 Research Design
- 3.3 Population
- 3.4 Sampling Design
- 3.5 Data collection Techniques

CHAPTER IV SBI: Corporate Governance in India's Largest Public Sector Bank

- 4.1 Basic Framework of Corporate Governance
- 4.2 Initiatives for Strengthening Corporate Governance
- 4.3 Role of various Committees
- 4.4 Role of Board of Directors
- 4.5 Positive implications of Corporate Governance in overall Organization

CHAPTER V Governing Pattern of ICICI Bank

- 5.1 Company's Philosophy on Corporate Governance
- 5.2 Different Committees and their working
- 5.3 Composition of Board of Directors
- 5.4 Impact of Corporate Governance on Bank

CHAPTER VI Data Collection, Analysis and Interpretations

CHAPTER VII Results: Findings and Discussion

CHAPTER VIII Summary, Conclusions and Recommendations

Annexure

Questionnaire for Employees

Name of the employee:

Designation

Branch Location

Q1) Association with the bank:

a) Newly Joined
b) 1-5 yrs
c) 5-10 yrs
d) More than 10 yrs

Q2) How do you rate yourself in terms of awareness about the concept of Corporate Governance?

a)Very Good
b)Good
c)Average
d)Bad
e)Very Bad

Q3) To what extent do members of the board understand their responsibilities?
a) Very Strongly
b) Strongly
c) Moderately
d) Not at all

Q4) How would you rate yourself in terms of knowledge about policies and procedures of the management?
a) Well informed
b) Rarely informed
c) Hardly informed

Q5) All the queries and complaints regarding procedures and policies of the banks are answered timely.
a) Strongly agree
b) Agree
c) Neutral

d) Disagree
e) Strongly Disagree

Q6) Board members and management staff responsibilities are well defined and clearly ?
a) Yes
b) No

Q7) How are the public kept informed of company information(s)?
a) News bulletin
b) Daily newspapers
c) Website
d) Email
e) Others ……

Q8) What type of information is disclosed to the public according to the information disclosure policy?
a) Company's success stories
b) Business contracts
c) Change in key management position
d) Others ……

Q9) What type of system has been established to raise concerns?
a) Suggestion box
b) Website
c) Email
d) Others ……

Q10). What is the composition of the Board?
a) Executive directors only
b) Non-executive directors only
c) Independent directors only
d) Mix of i, ii & iii
e) Others ……

Q11) How often do board and sub-committees conduct meetings?
a) Every one month
b) Every quarter
c) Twice a year
d) Others ……

Q12) Does the organization undertake a review to ensure that actions decided at meetings have been taken?
a) Every time
b) Most of the times
c) Rarely

d) Hardly

Q13) How do you score on those attributes of good Corporate Governance?

a). High level of disclosures
b). Shareholding patterns
c). Appropriate governance structure
d). Presence of a strong and independent Board of Directors
e). Adequate Committee Structure
f). Means of Communication

Q14) which of the following Sub-committees exist in the bank?

Name of the Committee	
Audit Committee	
Remuneration Committee	
Investor's grievance handling Committee	
Whistle Blowing Committee	
Risk monitoring Committee	
Any other(specify)	

Q15) What do you think regarding the effectiveness of audit committee in preventing fraud?

a) Highly Effective
b) Moderately Effective
c) Ineffective

Q16) Will you try to achieve the maximum effectiveness in terms of good corporate governance in your Bank?

a) Yes
b) Sometimes Yes
c) Only in Exceptional cases
d) No

Q17) How do you fulfill the compliance requirements of Corporate Governance Norms? (A copy of the report/return may please be attached)

Questionnaire for Customers

Name:

Occupation:

Q1) Association with the bank:

a) New customer (Recently associated)
b) 1-5 yrs
c) 5-10 yrs
d) More than 10 yrs

Q2) How frequently you visit the bank premises?
a) Everyday
b) Weekly
c) Monthly
d) Occasionally

Q3) How do you rate yourself in terms of awareness about the concept of Corporate Governance?

a)Very Good
b) Good
c) Average
d) Bad
e) Very Bad

Q4) The services provided by the bank are satisfactory:
a) Strongly agree
b) Agree
c) Neutral
d) Disagree
e) Strongly Disagree

Q5) If disagree, area of dissatisfaction:
a) Problem related to account
b) Servicing
c) Hidden charges

d) Any other (specify)

Q6) Does the bank inform you timely about the changes made in policies (if any):

a) Every time
b) Most of the times
c) Rarely
d) Hardly

Q7) Bank responds to your complaints promptly and effectively

a) Yes
b) No

Q8) if yes, how much time bank usually takes for reverting back to your complaints?

a) On the spot response
b) A week
c) A month
d) No response

Q9) Have you ever noticed any kind of hidden charges on your transactions?

a) Yes
b) No

Q10) As an investor in banks deposit schemes, do you get timely interest payments and updates about changes in policy?

a) Yes
b) Sometimes Yes
c) Only in Exceptional cases
d) No